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PASS USAID FOR AA/AFR AND AFR/SA
SENSITIVE
E.O. 12958: N/A
TAGS: ECON EAID EINV ETRD MZ
SUBJECT: JULY MONTHLY ECONOMIC WRAP-UP: MOZAMBIQUE

FOREIGN INVESTMENT

¶1. (U) Vodacom, the South African mobile phone operator that began operations in Mozambique in December 2003, now estimates that it has 100,000 subscribers in Mozambique. Mcel, the national operator, estimates that is has 500,000 subscribers. There is clear market growth in this sector and the number of total subscribers is expected to rise to 1 million over the next five years (Vodacom estimate). Vodacom mobile phone coverage now extends to all provincial capitals, except Quelimane, which is scheduled for coverage in August 2004. The South African firm is ahead of schedule for installation and has launched a particularly strong marketing campaign. A Vodacom source announced that only 10-20% of their subscribers have come over from Mcel, yet it bodes well for both firms that mobile phone service is in demand. In Africa, Vodacom operates in Lesotho, South Africa, Tanzania, the Democratic Republic of the Congo, and now Mozambique. The cost of Vodacom service is lowest in Mozambique. Vodacom has focused its marketing campaign on attracting individuals and has not attracted many corporate clients yet. Ninety-six percent of Vodacom's clients are pre-paid subscribers. Vodacom estimates that it will "break even" in another 12-14 months. Their Mozambique investment totals $200 million.

¶2. (U) The Corridor Heavy Sands Project (Australia) will spend $500 million in the first phase of development for the initial production of some 400,000 tons of titanium dioxide slag per year. The project is based on immense deposits of titanium dioxide minerals located near the town of Chibuto in the Gaza Province. The deposits were discovered in late 1997, and represent the world's largest known economic resource of titanium dioxide and associated minerals. Corridor Sands will establish an integrated heavy mineral sands mining, mineral processing, and beneficiation operation that will include the mine and an associated two-stage mineral processing plant. The minerals are ilmenite, rutile, leucoxene, and zircon. Corridor Sands Limited (CSL) has the exclusive right to develop the deposit and the Industrial Corporation of South Africa holds an option to acquire 10% of CSL. For CSL to reach its planned full production level of one million tons of titanium dioxide slag per year, the project will require a total capital investment of approximately $800 million. Infrastructure construction will begin in 2006 and the first production is anticipated for 2008. As a mega-project, CSL operates in an industrial free zone. Mega-projects such as MOZAL aluminum smelter and the SASOL natural gas pipeline fuel the economic growth of Mozambique by an estimated 1-2% per year. With two mineral processing mega-projects in the pipeline (Moma Heavy Sands and Corridor Sands), Mozambique's economic growth will be further fueled by this significant investment. Mozambique's GDP growth has remained one of the highest in Africa over the 1992-2003 period, averaging 8% growth per year.

¶3. (U) Universal Leaf Tobacco (Mozambican subsidiary known as Mozambique Leaf Tobacco or MLT) continues construction on the country's first tobacco processing plant in the province of Tete. A local news source indicates that construction, which began in July 2003, is moving along at a good pace and should be completed within the predicted 15 months, allowing for plant inauguration before the end of 2004. The $45 million undertaking (one of the largest in the last several decades in Tete) is projected to bring substantial development to the Tete Province, creating more than 2,000 jobs. Universal Leaf Tobacco is one of the biggest producers, processors, and exporters of tobacco in the world. They operate in South Africa, Zimbabwe, Zambia, Malawi, Tanzania, Ghana, and now, Mozambique.

¶4. (U) The GRM laid the first stone in building a pipeline to supply natural gas to the city of Matola. The building of the 100km branch line linking the gas fields of Inhambane to Matola was awarded to the newly formed Matola Gas Company (MGC) and construction should be completed by June 2005. When the job is completed and gas starts flowing to Matola, where much of the country's industry is located (including the MOZAL aluminum smelter), the cost of Mozambican fuel imports could be cut by about $80 million/year (local news source). The MOZAL smelter will be the pipeline's biggest customer, however, the gas will supply smaller industries and the general public.

MACROECONOMICS

¶5. (U) In the recently published OECD "African Economic Outlook" Report, a fairly positive picture is painted of the Mozambican economy. According to the report, Mozambique's trade deficit was reduced to 15% of GDP in 2003 (from 16% in 2002) and is set to fall to 8.6% in 2004 and 7.7% in 2005. The trade deficit reduction is largely due to the massive increase in exportation of aluminum ingots, produced by the MOZAL aluminum smelter that just inaugurated Phase II of operations (December 2003). Also helping to even the trade balance is the higher price of electricity that Eskom (South Africa) must pay for Cahora Bassa power. Mozambique, Portugal, and South Africa signed an agreement in early 2004 to raise these tariffs. The start of export of natural gas down the SASOL-built and operated gas pipeline from Inhambane to Secunda, South Africa, also helps boost the trade balance. Fiscal revenues improved in 2003, reaching nearly 13% of GDP, compared with 12.5% in 2002 and 11.8% in 2001. The report attributes this to new, modernized taxes on personal incomes and profits, as well as measures to limit tax exemptions for investors. Inflation stood at 12.7% in 2003, driven by the rise in price of imported oil and the strengthening of the South African Rand. The report notes strong growth in the production of food and cash crops, particularly of sugar, thanks to heavy foreign (Mauritian and South African) investment rehabilitating the sugar mills. The report makes clear that obstacles remain for investors wishing to do business in Mozambique. Shortage of domestic capital, high borrowing costs, excessive bureaucracy, and inadequate infrastructure are some of the challenges that remain.

TOURISM

¶6. (SBU) The Carr Foundation will invest an estimated $1 million per year for the next several years into development and rehabilitation of Gorongosa National Park in the Sofala Province. This park was decimated in the civil war and very little wildlife remains (an estimated 200 elephant, four zebra, and other species). The Carr Foundation traveled to Mozambique in March 2004 to survey different areas for tourism investment. The Foundation chose to invest in Gorongosa because of its location on the Beira corridor and relatively good park access. The Foundation will support the park in a 40-year financial commitment that involves community development, conservation, and economic sustainability through ecotourism. In the future, tenders for tourism operators to work in the park will be released. Although Gorongosa's ecosystem is still in place, animals must be transferred from other parks (Marromeu, Niassa Reserve, possibly Zimbabwe and South Africa) to start small-scale tourism. Currently, only around 1,000 tourists visit the park each year and each one spends as little as $5 on average during their visit. Everything must be brought into the park, including food, water, and fuel.

PORTS, ROADS, AND RAILWAYS

¶7. (U) CFM, the transportation parastatal, signed an agreement with Cornelder (Holland) for a 25-year concession to develop and privatize the port of Quelimane in Zambezia Province. Fourteen million dollars in financing will be provided by KFW, a German bank, allowing for port rehabilitation and modernization. Cornelder is a long-time partner of CFM, as it signed a similar agreement in 1998 to privatize container terminals at the port of Beira, one of the country's most critical ports. The port of Quelimane is less important and sees significantly less traffic than the three biggest ports of Maputo, Beira, and Nacala. Revitalization of the port will benefit Zambezia Province that exports primarily tea, seafood, and timber.

ENERGY

¶8. (U) EDM, the national electricity company, will invest $700 million in the next 15 years to carry out electricity projects throughout the country. With this level of investment, EDM estimates that nearly one million customers will be connected to the national electricity network (currently only 200,000 are connected to the network). To make this happen, EDM must invest $50-60 million per year until the year 2020. Presented at a national workshop, the Electricity Strategy for Mozambique from 2005-2020 (financed by the African Development Bank), identifies ways to strengthen the quality of electricity provided and targets areas that are in need of electrification. To date, the two most northern provinces of Cabo Delgado and Niassa have the least amount of coverage. The plan discusses the need to electrify Northern Niassa and more of Inhambane Province. Additionally, it encourages strengthening of coverage in Maputo and Beira. EDM is the only electricity provider in Mozambique. The extremely low purchasing power of Mozambicans makes investment in electrification unprofitable, making it difficult to attract private investors. For this reason, the GRM will likely remain the fundamental investor in electricity expansion and refortification.

LABOR

¶9. (U) On July 21, the GRM launched a Labor Law Revision Seminar, funded by UNDP, on the terms of reference and suggested changes for the new labor law. This is a continuation of seminars that has been taking place across the country (Beira, Nampula, and Xai-Xai) to encourage dialogue on labor law reform. The law is to be passed in 2005. The Seminar hosted participants from the private sector, the government, the unions, and donor groups.
LA LIME